

J.C. PENNEY COMPANY
A DELAWARE CORPORATION

*Operating
Fifteen Hundred
Fifty Four Stores*

FINANCIAL STATEMENT

December 31, 1939

February 29, 1940

TO THE STOCKHOLDERS OF
J. C. PENNEY COMPANY:

I am confident that you will view the December 31, 1939 Balance Sheet and supporting statements for J. C. Penney Company and its wholly owned subsidiaries, which statements accompany this letter, as assurance of the successful operation and financial security of the company.

The working position of the company is excellent and affords a very satisfactory opportunity for the operation of the business. The merchandise inventory account is considered to represent a stock of soundly priced, well assorted merchandise adapted to the requirements of our business. The cash account is felt to be in ample proportion to 1940 anticipated peak needs. The ratio of current assets to current liabilities, as will be noted from the Balance Sheet, continues at about 5 to 1.

Net profit for the calendar year of 1939 amounted to \$16,481,213.64 equal to \$6.48 per share on each of the 2,543,984 shares outstanding at the year-end. This compares with \$13,739,160.40, equal to \$5.40 a share for the prior year of 1938. The greater portion of the increase came in the latter half of the year when the volume of business generally increased substantially because of various reasons. This increase, of course, reflected itself in our business through increasing volume which later resulted in increased profit.

The sales for the year equalled \$282,133,933.64. These figures represented a new peak for the company and, also, an increase of 09.37% over the prior year, 1938.

The total number of stores in operation at the year-end was 1554, which was a net increase over the prior year-end of 15. While there are no plans in effect calling for any concerted effort toward broad

expansion, the management expects to continue selective expansion where it is possible to work out opportunities to operate under conditions that afford sound operating possibilities.

As will be understood by those who have been stockholders in J. C. Penney Company over a considerable period of years, it has been the policy of the company to occasionally issue shares of its common stock for sale to its store managers and those central and branch office executives eligible to receive the same. It is felt that this policy of a division with management of that which it helped produce, has contributed substantially to the success of the company.

Because of developments, it is felt that the late policy of occasional issuance of stock can be improved upon, in the interest of the management staff and also of the company, by adoption of a plan to be voted on by the company's stockholders at their next annual meeting. I am happy to present this plan for approval. We are all enthusiastically in favor of it. I know you, too, will be, after full consideration.

During the year 1939 the company paid dividends totaling \$5.00 per share, made up of four regular quarterly dividends of \$.75 and a year-end extra of \$2.00. This total payment was entirely justified by the financial position and year's operating record of the company.

The company has attempted over the years to reward its workers with fitting wages supplemented by other benefits, such as paid vacations, death protection, as well as bonus and thrift plans. The management feels that the result obtained through the efforts and loyalty of its associates not only merits what the company has offered but calls for an expression of appreciation at this time to that group for its loyal endeavors.

Respectfully submitted,

E. C. SAMS, President

J. C. PENNE

A DELAWARE CORPORATION

BALANCE SHEET

As at December 31, 1932

ASSETS

Current Assets:

Cash in Banks and on Hand	\$ 20,538,978.39*
Accounts Receivable — Trade and Miscellaneous	504,851.57
Merchandise, at the lower of cost or market	<u>53,370,819.81</u>
Total Current Assets	74,414,649.77

Investments in and Advances to Subsidiary Companies (including undistributed surplus) — at amounts as shown by Subsidiaries' Balance Sheets:

Advances	\$ 4,840,000.00	
Capital Stock and Surplus	<u>485,898.23</u>	5,325,898.23
Mortgages Receivable		101,683.15

Fixed Assets — at net sound values based on estimated replacement cost at December 31, 1932, plus subsequent additions at cost:

Land and Buildings	2,172,296.59	
Less Reserve for Depreciation	<u>306,151.46</u>	
	1,866,145.13	
Furniture and Fixtures, less Provision for Depreciation	7,131,655.96	
Improvements to Leaseholds, less Amortization	<u>1,762,132.98</u>	10,759,934.07

Deferred Charges — Unexpired Insurance Premiums, Rent Advances, Etc.

605,373.29
<u>\$ 91,207,538.51</u>

NOTE: *After deducting employees' contract compensation due at December 31, 1939 but paid in 1932

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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	\$ 10,716,052.87
Provision for Federal Income Tax	<u>3,514,108.52</u>
Total Current Liabilities	14,230,161.39

Reserve for Fire Losses, Etc., and Employees'

Death Benefits	2,219,220.84
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Common Stock, no par:

Authorized, 3,000,000 shares.	
Outstanding, 2,543,984 shares	28,122,766.67

Surplus (Earned):

J. C. Penney Company	\$ 46,199,491.38	
Undistributed Surplus of Subsidiaries	<u>435,898.23</u>	46,635,389.61

\$ 91,207,539.51

! subsequently thereto.

J. C. PENNEY COMPANY

Profit and Loss Account *For the Year ended December 31, 1939.*

(Including Profits of Subsidiaries)

Sales		\$ 282,133,933.64
Cost of Merchandise Sold, and Selling and General Expenses (exclusive of items specifically set forth below)	\$ 258,114,091.76	
Maintenance and Repairs	544,133.23	
Depreciation and Amortization (based on December 31, 1932 reduced book value or cost if acquired subsequently)	1,243,111.10	
Taxes, other than Federal Income Tax	<u>3,582,610.98</u>	263,483,947.07
		18,649,986.57
Discount on Purchases, Interest Received and Miscellaneous Income (Net)		<u>1,127,292.11</u>
Net Profit before Provision for Federal Income Tax		19,777,278.68
Provision for Federal Income Tax		<u>3,460,947.24</u>
		16,316,331.44
Add 1939 Profits of Subsidiaries		<u>164,882.20</u>
Transferred to Surplus		<u>\$ 16,481,213.64</u>

Note:

Common Stock outstanding at end of year	Shares	<u>2,543,984</u>
Earnings per share of Common Stock, as above		<u>\$ 6.48</u>

EARNED SURPLUS ACCOUNT

Surplus at December 31, 1938	\$ 42,662,036.66
Add Adjustment in connection with prior years' Processing and Federal Income Taxes (Net) — J. C. Penney Company and Subsidiaries	<u>212,059.31</u>
	42,874,095.97
Add Net Income for 1939	<u>16,481,213.64</u>
	59,355,309.61
Less Cash Dividends on Common Stock	<u>12,719,920.00</u>
Surplus at December 31, 1939	<u>\$ 46,635,389.61</u>

ACCOUNTANTS' REPORT

To the Board of Directors,
J. C. Penney Company,
New York, N. Y.

We have examined the Balance Sheet of the J. C. Penney Company as at December 31, 1939, and the statements of Profit and Loss and Surplus for the year ended on that date, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying Balance Sheet and related statements of Profit and Loss and Surplus present fairly the position of the J. C. Penney Company at December 31, 1939 and the results of the operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.,
February 29, 1940.

OFFICERS

J. C. PENNEY

Chairman of the Board

E. C. SAMS	President
A. W. HUGHES	Vice-President
W. A. REYNOLDS	2nd Vice-President
J. I. H. HERBERT	3rd Vice-President and Treasurer
A. J. RASKOPF	Secretary
R. W. TROWN	Comptroller

DIRECTORS

J. C. PENNEY, Chairman

E. C. SAMS	G. H. CROCKER
GEO. H. BUSHNELL	W. A. REYNOLDS
J. I. H. HERBERT	EARL A. ROSS
L. W. HYER	A. W. HUGHES
LEW V. DAY	F. W. BINZEN